

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WILLABROOK SANITATION,)	
INC., BULLITT COUNTY, KENTUCKY, FOR)	
AUTHORITY TO CONSTRUCT AND OPERATE A)	
GENERAL SEWER PLANT PURSUANT TO KRS)	
CH. 74 IN BULLITT COUNTY, KENTUCKY AND)	CASE NO. 90-389
APPLICATION OF WILLABROOK SANITATION,)	
INC., BULLITT COUNTY, KENTUCKY, FOR AN)	
ORDER APPROVING SUGGESTED RATES TO BE)	
CHARGED TO CUSTOMERS OF THE GENERAL)	
SEWER PLANT OF WILLABROOK SANITATION,)	
INC., IN BULLITT COUNTY, KENTUCKY)	

O R D E R

Willabrook Sanitation, Inc., ("Willabrook") by its application filed February 13, 1991, is seeking a Certificate of Public Convenience and Necessity for a proposed \$310,900 sewage system project and approval of initial rates. The proposed construction consists of a 50,000 gallons per day ("GPD") sewage treatment plant and a collection system. This should allow Willabrook to serve approximately 60 commercial customers.

Financing of the proposed construction will be by the children and heirs of S. B. Williams, ("Land Development Partnership"), the developers of the area that will subsequently require sewage treatment from Willabrook. Drawings and specifications for the proposed improvements prepared by James-Winstead & Associates, Inc. of Louisville, Kentucky ("Engineer"), have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

TEST PERIOD

Willabrook is a new rather than an existing utility, and accordingly, test-period financial information does not exist. Therefore, the Commission utilized estimated pro forma expenses in the determination of Willabrook's revenue requirement.

PROJECTED REVENUES AND EXPENSES

Willabrook projected operating revenues and expenses of \$60,041 and \$58,499, respectively, based on providing sewer service to approximately 60 commercial customers. The Commission finds that Willabrook's projected operating expenses are generally reasonable, and they have therefore been accepted, with the following exceptions:

Owner/Manager Fee

Willabrook proposed a pro forma level of owner/manager fee of \$600. In the past, the Commission has determined that \$2,400 annually is a reasonable level of compensation for owner/managers of utilities of Willabrook's size. Accordingly, the Commission has increased Willabrook's owner/manager fee by \$1,800.

Depreciation Expense

Willabrook has proposed a pro forma level of depreciation expense of \$12,200. Willabrook estimated that it will cost approximately \$310,900 to construct its sewage treatment and collection system, and based its depreciation expense on this amount.

On February 25, 1991, Willabrook informed the Commission that the Land Development Partnership will finance and construct its sewage treatment and collection system. Upon completion of the

construction, the Land Development Partnership will donate the sewage treatment and collection system to Willabrook which will record the donation as a Contribution In Aid of Construction ("CIAC").

It has been the Commission's past practice for rate-making purposes to disallow depreciation expense on property funded by CIAC for privately held or owned utilities. This recognizes that the capital investment has been provided by some source other than the utilities' owners, and therefore, allowance of depreciation expense would amount to a double recovery of plant investment.

Based upon the Commission's practice, Willabrook's pro forma operating expenses have been decreased by \$12,200, to reflect the elimination of depreciation expense.

Interest Expense

Willabrook has proposed a pro forma level of interest expense of \$34,199. Willabrook's pro forma interest expense is based on financing its construction cost of \$310,900 at an annual interest rate of 11 percent over an undisclosed term.

As previously mentioned the Land Development Partnership will finance and construct Willabrook's sewage treatment and collection system. In its letter received February 25, 1991, Willabrook stated that, "Willabrook Sanitation, Inc. will not be undertaking any indebtedness in exchange for the contribution and will receive the system from the land development partnership."

The debt will be undertaken by the Land Development Partnership and not Willabrook. Therefore, the Commission finds that

since the debt liability is the Land Development Partnership's and not Willabrook's, then the associated interest expense should be excluded from Willabrook's operations. Thus, Willabrook's pro forma operations have been decreased by \$34,199.

After consideration of the aforementioned adjustments, Willabrook's projected revenues and expenses are as follows:

	<u>Willabrook's Proposed Operations</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues:			
Measured Sewer Service	<u>\$ 60,041</u>	<u>\$(44,246)*</u>	<u>\$ 15,795*</u>
Operating Expenses:			
Utilities	\$ 4,920	\$ -0-	\$ 4,920
Routine Maintenance			
Service Fee	1,800	-0-	1,800
Maintenance of Plant	240	-0-	240
Insurance	500	-0-	500
Professional Fees	1,700	-0-	1,700
KNREP Fee	600	-0-	600
Collection Fee	140	-0-	140
Owner/Manager Fee	600	1,800	2,400
Office Expense	100	-0-	100
Supplies Expense	1,000	-0-	1,000
Depreciation Expense	12,200	(12,200)	-0-
Taxes Other Than Income	500	-0-	500
Total Operating Expenses	<u>\$ 24,300</u>	<u>\$(10,400)</u>	<u>\$ 13,900</u>
Net Operating Income	<u>\$ 35,741</u>	<u>\$ 10,400</u>	<u>\$ 1,895</u>
Other Deductions:			
Interest Expense	34,199	(34,199)	-0-
Net Income	<u><u>\$ 1,542</u></u>	<u><u>\$ 44,599</u></u>	<u><u>\$ 1,895</u></u>

*See revenue requirement determination

REVENUE REQUIREMENT DETERMINATION

The approach frequently used by this Commission to determine revenue requirements for small, privately-owned utilities is the operating ratio. This approach is used primarily when there is no basis for rate-of-return determination or the cost of the utility

plant has been fully recovered through the receipt of contributions.

The Commission-adjusted operating expenses and Willabrook's proposed operating revenues provide Willabrook with an operating ratio of 23.15 percent.¹ The Commission finds that an operating ratio of 23.15 percent would provide Willabrook with excessive earnings. The Commission further finds that an 88 percent operating ratio would allow Willabrook sufficient revenues to cover its operating expenses. In this proceeding, an operating ratio of 88 percent results in a revenue requirement of \$15,795,² a reduction of \$44,246³ from Willabrook's proposed operating revenue.

It is difficult to estimate or project operating revenues and expenses until a new system has actual operating results. Willabrook's revenue requirement is based on projections and estimates provided by Willabrook. Since actual operations may differ from Willabrook's projections, the Commission advises Willabrook to closely monitor and review its first year of operations. At the close of its first year, Willabrook should take appropriate action if actual results differ substantially from these estimates.

¹ $\$13,900 \div \$60,041 = 23.15\%$.

² $\$13,900 \div 88\% = \$15,795$.

³ $\$60,041 - \$15,795 = \$44,246$.

Rate Design

Willabrook has calculated the sewerage consumption on the basis of 2,000 gallons per acre per day. Willabrook has used the lot size of each of the proposed tracts of land in the commercial development, which vary in size from 1 acre to 10.74 acres and multiplied each lot size by 2,000 gallons to determine the individual customer's usage. The proposed rate schedule, which is a 4 step partially inverted declining block schedule, is then applied to the usage to determine the monthly bill. The Commission concurs with the proposed method and rate design.

Based on the proposed usage schedule, the Commission has adjusted the proposed rates to produce revenues sufficient to cover Willabrook's operating expenses.

FINDINGS AND ORDERS

After consideration of all evidence of record and being otherwise sufficiently advised, the Commission finds:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted.

2. The proposed construction includes a 50,000 GPD extended aeration plant, collection system and miscellaneous appurtenances.

3. Any deviations from the construction approved should be undertaken only with the prior approval of the Commission.

4. Willabrook should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. Willabrook should furnish duly verified documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Sewage Utilities prescribed by the Commission.

6. Willabrook's contract with its Engineer should require the provision of construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Willabrook should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

8. The rates proposed by Willabrook would produce revenues in excess of those found reasonable herein and should be denied.

9. The rates in Appendix A, which is attached hereto and incorporated herein, are the fair, just, and reasonable rates for service provided by Willabrook and will produce annual revenues of \$15,795.

10. Within 30 days from the date of this Order, Willabrook should file with this Commission tariff sheets setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. Willabrook be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction as set forth in the plans and specifications of record herein.

2. Willabrook shall comply with all matters set out in Findings 3 through 7 as if the same were individually so ordered.

3. The rates proposed by Willabrook be and they hereby are denied.

4. The rates and charges in Appendix A are approved for service rendered by Willabrook on and after the date of this Order.

5. Within 30 days from the date of this Order, Willabrook shall file with this Commission tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 24th day of April, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-389 DATED 4/24/91

The following rate schedule is prescribed for the customers in the area served by Willabrook Sanitation, Inc. located in Bullitt County, Kentucky.

<u>Customer Class</u>	<u>Monthly</u>
<u>Industrial</u>	
First 3,000 gallons	\$2.50 Minimum Bill
Next 3,000 gallons	.85 per 1,000 gallons
Next 194,000 gallons	.35 per 1,000 gallons
Over 200,000 gallons	.40 per 1,000 gallons